

**Oceana County Road Commission
Hart, Michigan**

FINANCIAL STATEMENTS

December 31, 2003

Oceana County Road Commission

TABLE OF CONTENTS

December 31, 2003

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	1-2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3-8
BASIC FINANCIAL STATEMENTS	
Government-wide Financial Statements:	
Statement of Net Assets	9
Statement of Activities	10
Fund Financial Statements:	
Governmental Fund Balance Sheet	11
Reconciliation of the Governmental Fund Balance Sheet to the Statement of Net Assets	12
Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Fund	13
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of the Governmental Fund to the Statement of Activities	14
Statement of Net Assets - Fiduciary Fund	15
Statement of Changes in Plan Net Assets - Fiduciary Fund	16
Notes to Financial Statements	17-27
REQUIRED SUPPLEMENTARY INFORMATION	
GENERAL OPERATING FUND	
Budgetary Comparison Schedule - Statement of Revenues - Budget and Actual	28
Budgetary Comparison Schedule - Schedule of Expenditures - Budget and Actual	29
OTHER SUPPLEMENTARY INFORMATION	
GENERAL OPERATING FUND	
Statement of Changes in Fund Balance	30
Analysis of Changes in Fund Balance	31
Analysis of Revenues	32
Analysis of Expenditures	33
Schedule of Changes in Capital Assets	34
REPORT ON COMPLIANCE AND INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF COMPONENT UNIT FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	35-36

Principals

Dale J. Abraham, CPA
Michael T. Gaffney, CPA
Steven R. Kirinovic, CPA
Aaron M. Stevens, CPA
Eric J. Glashouwer, CPA

Karen A. Roka, CPA
James A. Huguelet, CPA
Alan D. Panter, CPA
William I. Tucker IV, CPA
Kurt M. Lemmen, CPA



ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

Member:
American Institute of
Certified
Public Accountants
and
Michigan Association of
Certified Public
Accountants

INDEPENDENT AUDITOR'S REPORT

Board of the County Road Commissioners
Oceana County
Hart, Michigan

We have audited the accompanying component unit financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Oceana County Road Commission, a component unit of Oceana County, Michigan as of and for the year ended December 31, 2003, which collectively comprise the Commission's basic financial statements as listed in the Table of Contents. These component unit financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these component unit financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of the Oceana County Road Commission as of December 31, 2003, and the respective changes in financial position thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As described in Note A, the Commission has implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments, as of January 1, 2003, along with all related statements and interpretations.

In accordance with Government Auditing Standards, we have also issued a report dated May 5, 2004, on our consideration of the Oceana County Road Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

108 N. Spring St. ▪ St. Johns, MI 48879-1574 ▪ (989) 224-6836 ▪ FAX: (989) 224-6837
745 Barclay Circle, Suite 335, PO Box 70067 ▪ Rochester Hills, MI 48307 ▪ (248) 844-2550 ▪ FAX: (248) 844-2551

The management's discussion and analysis and budgetary comparison information on pages 3 through 8 and 28 through 29 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the component unit financial statements that collectively comprise the Oceana County Road Commission financial statements. The Other Supplementary Information listed in the Table of Contents is presented for purposes of additional analysis and is not a required part of the component unit financial statements of the Oceana County Road Commission. Such information has been subjected to the auditing procedures applied in the audit of the component unit financial statements and, in our opinion, is fairly stated in all material respects in relation to the component unit financial statements taken as a whole.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

May 5, 2004

OCEANA COUNTY ROAD COMMISSION

Management's Discussion & Analysis

Our discussion and analysis of Oceana County Road Commission's financial performance provides an overview of the Road Commission's financial activities for the calendar year ended December 31, 2003. This annual report consists of a series of financial statements. The Statement of Net assets and the Statement of Activities provide information about the activities of the Road Commission and present a long-term view of the Road Commission's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Road Commission's operations in more detail than the government-wide financial statements. 2003 represents the first year the Commission implemented the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments, as amended by GASB Statement No. 37, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments – Omnibus and Statement No. 38, Certain Financial Statement Note Disclosures. Therefore, this discussion and analysis provides few comparisons with the previous fiscal year. Future reports will include financial comparisons to the prior year as required by GASB.

Overview of the Financial Statements

This annual report consists of four parts – management's discussion and analysis (this section), the basic financial statements, required supplementary information, and the other supplementary information section that presents the operating fund broken down between primary, local, and county roads. The basic financial statements include two kinds of statements that present different views of the Oceana County Road Commission:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Oceana County Road Commission's overall financial status. These statements report information about the Road Commission as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid. The two government-wide statements report the Road Commission's net assets and how they have changed. "Net Assets" is the difference between the assets and liabilities – this is one way to measure the Road Commission's financial health or position.
- The remaining statements are fund financial statements that focus on individual funds; reporting the operations in more detail than the government-wide statements.

Reporting the Oceana County Road Commission as a Whole

Government-Wide Statements

The Statement of Net Assets and the Statement of Activities report information about the Road Commission, as a whole, and about its activities in a way that helps answer the question of whether the Road Commission, as a whole, is better off or worse off as a result of the year's activities. The Statement of Net Assets includes all of the Road Commission's assets and liabilities using the accrual basis of accounting, which is similar to the accounting method used by most private-sector companies. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two statements, mentioned above, report the Road Commission's net assets and how they have changed. The reader can think of the Road Commission's net assets (the difference between assets and liabilities) as one way to measure the Road Commission's financial health or financial position. Over time, increases or decreases in the Road Commission's net assets are one indicator of whether its financial health is improving or deteriorating, respectively. To assess the overall health of the Road Commission, additional nonfinancial factors such as changes in the county's property tax base, the condition of the Road Commission's roads, and changes in the law related to the gas taxes and its distribution need to be considered.

Fund Financial Statements

The Road Commission currently has only two funds, the general operations fund and the pension fund. All of the Oceana County Road Commission's operating activities are accounted for in the general operations fund. The general operations fund is a governmental fund type. The General Operating Fund budget vs. actual schedules are located on pages 28 and 29. The other supplementary information begins on page 30 and provides detailed information about the major fund.

Governmental funds focus on how money flows into and out of this fund and the balances left at year-end that are available for spending. This fund is reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Oceana County Road Commission's general governmental operations and the basic service it provides. Governmental fund information helps the reader to determine whether there are more or fewer financial resources that can be spent in the future to finance the Road Commission's services. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and the governmental fund in a reconciliation following each fund level financial statements.

Financial Analysis of the Road Commission as a Whole

The Road Commission's net assets increased from \$1,634,733 to \$3,788,407, for the year ended December 31, 2003. The net assets and change in net assets are summarized below.

Net Assets

Restricted net assets are those net assets that have constraints placed on them by either: (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation. Enabling legislation authorized the government to assess, levy, charge, or otherwise mandate payment of resources and includes a legally enforceable requirement that those resources be used only for the specific purpose stipulated in the legislation. As such, all assets (except for amounts invested in capital assets, net of related debt) are considered restricted.

Net assets increased by \$2,153,674 for 2003. The primary reason for the increase was the recognition of infrastructure assets capitalized in 2003. Declining interest rates, decline in federal support for road projects and the loss of Township revenue sharing negatively impacted net assets and will most likely account for future impacted net assets.

Net assets for the year ended December 31, 2003 follows:

	<u>2003</u>
Current Assets	\$1,410,874
Capital Assets	<u>3,863,505</u>
TOTAL ASSETS	5,274,379
Current Liabilities	\$ 491,741
Other Liabilities	<u>981,031</u>
TOTAL LIABILITIES	1,472,772
Net Assets Invested in Capital Assets (Net of Related Debt)	\$3,204,832
Restricted for County Roads	<u>596,775</u>
TOTAL NET ASSETS	<u>\$3,801,607</u>

Changes in Net Assets

Because this is the first year of implementation of Governmental Accounting Standards Board Statement No. 34, which requires this new reporting model, the tables presented throughout this discussion and analysis only reflect current year data. In future years, when prior year information is available, comparative analysis of Road Commission data will be presented.

<u>Governmental Activities</u>	
Program Revenues	
Charges for services	\$ 930,931
Operating grants & contributions	3,821,917
Capital grants & contributions	1,436,223
General Revenues	
Interest	6,172
Miscellaneous	72
Gain on equipment disposal	<u>1,598</u>
TOTAL REVENUES	6,196,913
Expenses	
Primary Roads	\$ 886,743
Local Roads	1,937,690
State Trunkline	917,731
Equipment – net	(10,571)
Administrative – net	196,726
Drains	13,505
Compensated absences	(16,499)
Infrastructure depreciation	82,515
Interest expense	<u>35,399</u>
TOTAL EXPENSES	<u>4,043,239</u>
INCREASE IN NET ASSETS	<u>\$2,153,674</u>

The Oceana County Road Commission's Fund Level Information

The Road Commission's general operating fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the county, which are earmarked by law for road and highway purposes. For the year ended December 31, 2003, the fund balance of the general operating fund increased \$209,302 as compared to an increase of \$113,802 (after considering the effect of prior period adjustments) in the fund balance for the year ended December 31, 2002. Total operating revenues were \$6,196,913, a decrease of \$1,608,165 as compared to last year. The big change was a result of the turn back payment received in 2002 of \$1,485,000. There was also a decrease in interest earned due to the overall economy in the amount of \$15,757. Total expenditures were \$5,987,611, a decrease of \$1,966,938 as compared to last year. This change in expenditures was due primarily to a decrease in primary road maintenance and local road heavy maintenance.

A summary of changes in the Operating Fund for the year ended December 31, 2003 was as follows:

	12-31-03
	<u>Operating Fund</u>
Revenues	
Licenses & Permits	\$ 13,200
Federal Grants	617,854
State Grants	4,034,844
Contributions from local units	605,442
Charges for services	917,731
Interest & Rents	6,172
Other	<u>1,670</u>
TOTAL REVENUES	6,196,913
Expenditures	
Primary Road	1,444,064
Local Road	3,417,223
State Trunkline	917,731
Equipment – net	(26,032)
Administrative – net	196,726
Capital outlay	(164,069)
Debt Service	188,463
Drain Assessment	<u>13,505</u>
TOTAL EXPENDITURES	<u>5,987,611</u>
EXCESS OF REVENUES OVER EXPENDITURES	209,302
FUND BALANCE – BEGINNING	<u>793,067</u>
FUND BALANCE – ENDING	<u>\$1,002,369</u>

Budgetary Highlights

Prior to the beginning of any year, the Road Commission's budget is compiled based upon certain assumptions and facts available at that time. During the year, the Road Commission Board acts to amend its budget to reflect changes in these original assumptions, facts, and/or economic conditions that were unknown at the time the original budget was compiled. In addition, by policy, the Board reviews and authorizes large expenditures when requested throughout the year.

The final amended revenue budget for 2003 was \$543,266 higher than the original budget primarily due to the Road Commission receiving certain federal aid projects during the year as originally planned. There was also an increase in Township contributions. The actual revenue recognized during 2003 was greater than the final amended budget by \$740,913. There were only four (4) immaterial unfavorable variances in all of the revenue line items.

The final amended expenditures budget for 2003 was \$798,121 higher than the original budget primarily due to the Road Commission completing more Township projects than originally planned; the increase in fringe benefits was due primarily to increases in employee benefits. The actual expenditures recognized during 2003 were lower than the final amended budget by \$276,611. There were unfavorable variances in certain expenditure line items.

Capital Asset & Debt Administration

Capital Assets

As of December 31, 2003, the Road Commission has invested \$3,863,505 in net capital assets. This amount represents a net increase (including additions and deductions) of \$1,774,809 or 45% as follows:

	<u>2003</u>
Capital Assets Not Being Depreciated	
Land & Improvements	\$ 62,094
Capital Assets Being Depreciated	
Buildings	1,710,115
Road	5,109,835
Shop	99,777
Office	45,441
Engineer	3,744
Infrastructure - Roads	1,392,578
Infrastructure - Bridges	<u>644,276</u>
SUB-TOTAL	<u>9,005,766</u>
TOTAL CAPITAL ASSETS	9,067,860
TOTAL ACCUMULATED DEPR.	<u>(5,204,355)</u>
TOTAL NET CAPITAL ASSETS	<u>\$3,863,505</u>

The Road Commission reported the infrastructure and related assets during the current year in the amount of \$2,036,854. The infrastructure is financed through Federal, State, and Local contributions and has not been included in the audited financial statements in prior years.

This year's major capital asset additions included the following:

Equipment	
Roads	\$ 154,095
Infrastructure	
Roads	1,392,578
Bridges	<u>644,276</u>
TOTAL	\$2,190,949

There were no installment purchase agreements entered into during 2003.

During 2003, the Road Commission traded in and/or disposed of equipment (road, shop, office, and engineering) with a purchase amount of \$21,337, related accumulated depreciation of \$21,337, and net book value of \$-0-.

Debt

As of December 31, 2003, the Road Commission had \$560,000 in long-term bonds outstanding versus \$640,000 last year, a decrease of 8.75% as shown below. The Road Commission paid off two (2) leases for motor graders; the scraper lease will be paid in full in June 2005.

	<u>12-31-02</u> <u>Balance</u>	<u>2003</u> <u>Payment</u>	<u>12-31-03</u> <u>Balance</u>	<u>% of</u> <u>Change</u>
Bonds Payable	\$640,000	\$80,000	\$560,000	8.75%
Capital Lease	<u>168,789</u>	<u>70,116</u>	<u>98,673</u>	41.54%
Totals	<u>\$808,789</u>	<u>\$150,116</u>	<u>\$658,673</u>	

During 2003 there was no new bonded debt.

Other obligations include accrued vacation pay and sick leave. As of December 31, 2003, the Road Commission has a \$400,535 outstanding debt related to accumulated unused vacation pay and sick leave. More detailed information about the Road Commission's long-term liabilities is presented in Notes to the Financial Statements.

Economic Factors and Next Year's Budget

The Board of County Road Commissioners considered many factors when setting the fiscal year 2004 budget. One of the factors is the economy. The Road Commission derives approximately 58% of its revenues from the fuel tax collected. Using MDOT projections, it is estimated that the Road Commission will receive \$3,863,500, or about \$140,000 less in MTF revenues in 2004. During 2004 we will be completing a major road project that will increase our Federal and State revenues.

The above items were considered when adopting the budget for 2004. Amounts available for appropriation in the 2004 budget are \$5,847,060, an increase of \$391,060 over the 2003 final amended revenue budget of \$5,456,000.

Contacting the Road Commission's Financial Management

This financial report is designed to provide the motoring public, citizens, and other interested parties a general overview of the Road Commission's finances and to show the Road Commission's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Oceana County Road Commission's administrative offices at P.O. Box 112, Hart, MI 49420.

BASIC FINANCIAL STATEMENTS

Oceana County Road Commission

STATEMENT OF NET ASSETS

December 31, 2003

	<u>Governmental Activities</u>
ASSETS	
Current assets	
Cash and cash equivalents	\$ 533,328
Accounts receivable	32
Due from other governmental units	
State	678,651
Local	49,401
Inventory	<u>149,462</u>
Total current assets	1,410,874
Noncurrent assets	
Capital assets, net	<u>3,863,505</u>
TOTAL ASSETS	5,274,379
LIABILITIES	
Current liabilities	
Accounts payable	42,146
Accrued liabilities	101,219
Accrued interest payable	5,059
Current portion of compensated absences	249,550
Current portion of long-term debt	<u>93,767</u>
Total current liabilities	491,741
Noncurrent liabilities	
Advances	265,140
Noncurrent portion of compensated absences	150,985
Noncurrent portion of long-term debt	<u>564,906</u>
Total noncurrent liabilities	<u>981,031</u>
TOTAL LIABILITIES	<u>1,472,772</u>
NET ASSETS	
Invested in capital assets, net of related debt	3,204,832
Restricted for County Roads	<u>596,775</u>
TOTAL NET ASSETS	<u><u>\$ 3,801,607</u></u>

See accompanying notes to financial statements

Oceana County Road Commission

STATEMENT OF ACTIVITIES

December 31, 2003

	<u>Governmental Activities</u>
Program Expenses	
Primary Road	\$ 886,743
Local Road	1,937,690
State Trunkline	917,731
Equipment - net	(10,571)
Administrative - net	196,726
Drains at large	13,505
Compensated absences	(16,499)
Infrastructure depreciation	82,515
Interest expense	<u>35,399</u>
TOTAL PROGRAM EXPENSES	4,043,239
Program Revenues	
Charges for services	930,931
Operating grants and contributions	3,821,917
Capital grants and contributions	<u>1,436,223</u>
TOTAL PROGRAM REVENUES	<u>6,189,071</u>
NET PROGRAM REVENUES	2,145,832
General Revenues	
Interest	6,172
Miscellaneous	72
Gain on equipment disposal	<u>1,598</u>
TOTAL GENERAL REVENUES	<u>7,842</u>
CHANGE IN NET ASSETS	2,153,674
Net assets, beginning of the year	<u>1,634,733</u>
Net assets, end of the year	<u><u>\$ 3,788,407</u></u>

See accompanying notes to financial statements

Oceana County Road Commission
GOVERNMENTAL FUND BALANCE SHEET
December 31, 2003

	Governmental Fund Type
	<u>General</u>
	<u>Operating Fund</u>
ASSETS	
Cash and cash equivalents	\$ 533,328
Accounts receivable	32
Due from other governmental units	
State of Michigan	678,651
Local	49,401
Inventory	<u>149,462</u>
TOTAL ASSETS	<u><u>\$ 1,410,874</u></u>
LIABILITIES AND FUND EQUITY	
LIABILITIES	
Accounts payable	\$ 42,146
Accrued liabilities	101,219
Advances	
State of Michigan	<u>265,140</u>
TOTAL LIABILITIES	408,505
FUND EQUITY	
Fund balance	
Reserved for primary road	1,195,748
Unreserved - undesignated	<u>(193,379)</u>
TOTAL FUND EQUITY	<u>1,002,369</u>
TOTAL LIABILITIES AND FUND EQUITY	<u><u>\$ 1,410,874</u></u>

See accompanying notes to financial statements

Oceana County Road Commission

RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET
TO THE STATEMENT OF NET ASSETS

December 31, 2003

Total fund balance - governmental fund **\$ 1,002,369**

Amounts reported for the governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources
and therefore are not reported as assets in the governmental fund.

The cost of capital assets is	\$ 9,067,860	
Accumulated depreciation is	<u>(5,204,355)</u>	
Capital assets, net		3,863,505

therefore are not reported in the Governmental Fund Balance Sheet.
Long-term liabilities at year-end consist of:

Bond payable	(560,000)	
Lease payable	(98,673)	
Accrued interest payable	(5,059)	
Compensated absences	<u>(400,535)</u>	
		<u>(1,064,267)</u>

Net assets of governmental activities **\$ 3,801,607**

See accompanying notes to financial statements.

Oceana County Road Commission

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
GOVERNMENTAL FUND

Year Ended December 31, 2003

	Governmental Fund Type
	<u>General</u>
	<u>Operating Fund</u>
REVENUES	
Licenses and permits	\$ 13,200
Intergovernmental	5,258,140
Charges for services	917,731
Interest and rents	6,172
Other	<u>1,670</u>
TOTAL REVENUES	6,196,913
EXPENDITURES	
Current	
Primary Road	1,444,064
Local Road	3,417,223
State Trunkline	917,731
Equipment - net	(26,032)
Administrative - net	196,726
Drains at large	13,505
Capital outlay	(164,069)
Debt Service	<u>188,463</u>
TOTAL EXPENDITURES	<u>5,987,611</u>
EXCESS OF REVENUES OVER EXPENDITURES	209,302
Fund balance, beginning of year	<u>793,067</u>
Fund balance, end of year	<u><u>\$ 1,002,369</u></u>

See accompanying notes to financial statements.

Oceana County Road Commission

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGE IN FUND BALANCE OF GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES

Year Ended December 31, 2003

Net change in fund balance - governmental fund **\$ 209,302**

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in the governmental fund. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	\$ 2,190,949	
Depreciation expense	(333,625)	
Infrastructure depreciation	<u>(82,515)</u>	
 Excess of capital outlay over depreciation expense		 1,774,809

Repayment of long-term debt and borrowing of long-term debt is reported as expenditures in the governmental fund, but the repayment reduces long-term liabilities and the borrowings increase long-term liabilities in the statement of net assets.

In the current year, these amounts consist of:

Bond principal		80,000
Capital lease payments		70,116

Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental fund. These activities consist of:

Decrease in accrued interest payable	2,948	
Decrease in accrued compensated absences	<u>16,499</u>	
		<u>19,447</u>

Change in net assets of governmental activities **\$ 2,153,674**

See accompanying notes to financial statements.

Oceana County Road Commission

Fiduciary Fund

STATEMENT OF NET ASSETS

December 31, 2003

	Pension Fund
ASSETS	
Investments	<u>\$ 1,645,245</u>
NET ASSETS	
Held in trust for pension benefits	<u>\$ 1,645,245</u>

See accompanying notes to financial statements.

Oceana County Road Commission

Fiduciary Fund

STATEMENT OF CHANGES IN PLAN NET ASSETS

Year Ended December 31, 2003

	<u>Pension Fund</u>
ADDITIONS	
Contributions	
Employer	\$ 116,182
Investment earnings	
Interest and dividends	<u>190,191</u>
TOTAL ADDITIONS	306,373
DEDUCTIONS	
Benefits	<u>50,232</u>
CHANGE IN NET ASSETS	256,141
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	
Beginning of year	<u>1,389,104</u>
End of year	<u><u>\$ 1,645,245</u></u>

See accompanying notes to financial statements.

Oceana County Road Commission
NOTES TO FINANCIAL STATEMENTS

December 31, 2003

NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Oceana County Road Commission (the "Commission") is a component unit of Oceana County, Michigan. The Commission is used to control the expenditure of revenues from the State distribution of gas and weight taxes, federal financial assistance, and contributions from other local units of government for work performed for road projects throughout the county.

The Commission, which is established pursuant to the County Road Law (MCL 224.1), operates under an elected Board of three (3) County Road Commissioners who establish policies and review operations of the Commission. The Commission provides services to sixteen (16) Townships in Oceana County and maintains over 1,160 miles of local and primary roads.

1. Reporting Entity

The Commission is required by Public Act 51 of the State of Michigan to have an audit performed of its operations. This financial report has been prepared to meet this State requirement.

As required by accounting principles generally accepted in the United States of America; GASB Statement No. 14, The Financial Reporting Entity; and Statement on Michigan Governmental Accounting and Auditing No. 5, these financial statements are exclusive presentations of the financial condition and results of operations of the Oceana County Road Commission. The Commission is considered a component unit of Oceana County, Michigan and is discretely presented in Oceana County's (the Primary Government) financial statements. A copy of the County's audited financial statements may be obtained at the County Courthouse in Hart, Michigan.

2. Basis of Presentation

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities (the government-wide statements) present information for the Commission as a whole.

The statement of activities presents the direct functional expenses of the Commission and the program revenues that support them. Direct expenses are specifically associated with a service, program, or Commission and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients for goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes interest and shows how governmental functions are either self-financing or supported by the general revenues of the Commission.

FUND FINANCIAL STATEMENTS

The Commission uses a single fund to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The governmental fund financial statements present the Commission's individual major fund.

The major fund of the Commission is:

- a. Special Revenue Fund - This general operating fund is used to account for all financial resources of the Commission, which are restricted to expenditures for specified county road related purposes.

3. Measurement Focus

The government-wide financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations are provided that explain the differences in detail.

NOTES TO FINANCIAL STATEMENTS

December 31, 2003

NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
- CONTINUED

3. Measurement Focus - continued

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

4. Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

All governmental funds are accounted for using the modified accrual basis of accounting. Under this method, revenues are recognized when they become susceptible to accrual (when they become both "measurable" and "available to finance expenditures of the current period"). The length of time used for "available" for purposes of revenue recognition in the governmental fund financial statements is 60 days. Revenues, which are considered measurable but not available, are recorded as a receivable and deferred revenue. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, except for interest on long-term debt which is recorded when due.

Private-sector standards of accounting and financial reporting issued to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The Commission has elected not to follow subsequent private-sector guidance.

5. Budgets and Budgetary Accounting

The annual budget of the Commission is prepared by Commission management and approved by the Board. Any revisions to the original budget are approved by the Board before the end of the fiscal year.

6. Cash, Cash Equivalents, and Investments

Cash and cash equivalents consist of the Commission's checking accounts, imprest cash, and short-term investments with an original maturity of 90 days or less.

Investments are reported at fair value. Investments consist of various Pension Fund securities.

7. Inventories

Inventories of road materials and equipment parts are recognized using the consumption method (inventories are recorded as expenditures when they are used). Inventories are stated at average cost.

8. Capital Assets

Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges and similar items), are reported under governmental activities within the operating fund in the government-wide financial statements. Capital assets are defined by the Oceana County Road Commission as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of two years. Such assets are recorded at historical costs or estimated historical cost of purchase or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Oceana County Road Commission
NOTES TO FINANCIAL STATEMENTS

December 31, 2003

NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
- CONTINUED

8. Capital Assets - continued

GASB Statement No. 34 requires major networks and major subsystems of infrastructure assets acquired, donated, constructed, or substantially rehabilitated since fiscal years ending after June 30, 1980, be inventoried and capitalized by the fourth anniversary of the mandated date of adoption of the other provisions of GASB Statement No. 34. The Oceana County Road Commission has capitalized the current year's infrastructure, as required by GASB Statement No. 34, and has reported the infrastructure in the Statement of Net Assets. The Road Commission will retroactively capitalize the major infrastructure assets on or before December 31, 2007, as permitted by GASB Statement No. 34.

Depreciation is computed on the sum-of-the-years'-digits method for road equipment and straight-line method for all other capital assets. The depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

Buildings	30 - 50 years
Road Equipment	5 - 8 years
Shop Equipment	10 years
Engineering Equipment	4 - 10 years
Office Equipment	4 - 10 years
Infrastructure - Roads	5 - 30 years
Infrastructure - Bridges	12 - 50 years

9. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities under the governmental activities within in the Operating Fund Statement of Net Assets.

10. Accrued Vacation and Sick Leave

In accordance with contracts negotiated with the various employee groups of the Commission, employees have a vested right upon termination to receive compensation for accumulated sick and vacation leave under formulas and conditions specified in the contracts. In the event of termination, an employee is paid for certain portions of unused accumulated vacation and sick time. This amount along with related payroll taxes is recorded in the government-wide financial statements.

11. Equipment Rentals

The Michigan Department of Transportation requires that the cost of operating equipment, including depreciation, be allocated to the various activities. The effect of this allocation is deducted from equipment expenditures for the Statement of Revenues, Expenditures, and Changes in Fund Balance.

12. Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

13. Comparative Data

Comparative data for the prior year has not been presented in the accompanying financial statements since their inclusion would make the statements unduly complex and difficult to read.

Oceana County Road Commission
NOTES TO FINANCIAL STATEMENTS

December 31, 2003

NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
- CONTINUED

14. Accounting Change

As of January 1, 2003, the Commission implemented the provisions of Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments (Statement) along with all related statements and interpretations. Some of the significant changes in the Statement include the following:

- A Management Discussion and Analysis (MD&A) section providing an analysis of the Commission's overall financial position and results of operations has been included.
- Government-wide financial statements (statement of net assets and statement of activities) prepared using full accrual accounting for all of the Commission's activities have been provided. Reconciliations are presented between the governmental fund level (modified accrual) and government-wide (full accrual) statements since their measurement focus is not the same.
- Capital assets reported on the statement of net assets include assets in the amount of \$2,088,696, which was previously reported in the General Fixed Assets Account Group. The government-wide statement of activities reflects depreciation expenses on the Commission's applicable capital assets.
- Long-term obligations reported on the statement of net assets include \$1,225,823, which was previously reported in the General Long-term Debt Account Group.
- The fund financial statements focus on major funds rather than fund types.

This implementation has also required certain disclosures to be made in the notes to the financial statements concurrent with the implementation of Statement No. 34 based on GASB Statement No. 38. Certain note disclosures have been added and/or amended, including descriptions of activities of major funds and various other disclosures.

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS

The Uniform Accounting Procedures Manual for Michigan County Road Commissions provides that the County Treasurer maintain the cash of the Commission. All Commission receipts are deposited with the Oceana County Treasurer's Office, and in order to make disbursements, the Oceana County Road Commission requests the County Treasurer to transfer the required funds to an imprest vendor or payroll checking account. Also, in order to invest cash, a request is made of the County Treasurer. All funds of the Commission are held with the County Treasurer in separate accounts in the Commission's name.

In accordance with Michigan Compiled Laws, the Commission is authorized to invest in the following investment vehicles:

1. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a State or nationally chartered bank or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of this State or the United States, but only if the bank, savings and loan association, savings bank or credit union is eligible to be a depository of surplus funds belonging to the State under Section 6 of 1855 PA 105, MCL 21.146.

Oceana County Road Commission
NOTES TO FINANCIAL STATEMENTS

December 31, 2003

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED

3. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
4. The United States government or Federal agency obligations repurchase agreements.
5. Bankers acceptances of United States Banks.
6. Mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan Compiled Laws allow for collateralization of government deposits if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143, to secure deposits of State funds, securities issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Corporation or Government National Mortgage Association.

The Commission's bank deposits at December 31, 2003, are composed of the following:

	<u>Carrying Amount</u>	<u>Bank Balance</u>
Checking accounts	\$(121,688)	\$ 25,000
Certificates of Deposit	<u>100,208</u>	<u>100,208</u>
Total	<u>\$(21,480)</u>	<u>\$ 125,208</u>

Bank deposits of the Commission are at federally insured banks located in the State of Michigan with all accounts maintained in the name of the Commission. As of December 31, 2003, the Commission's accounts were fully insured by the FDIC. The cash caption on the balance sheet includes \$200 in imprest cash.

As of December 31, 2003, the market values, which are the carrying values for each investment, are as follows:

Insured or registered for which the securities are held by the Commission's agent not in the Commission's name.

<u>Investment Type</u>	<u>Carrying Amount</u>
SFlex Fixed	\$ 780,348
SFlex Equity	713,204
SFlex Growth	53,756
SFlex SCD Balanced	12,840
SF Fidelity Growth	10,799
SF Fidelity Contra Fund	50,373
SF SCD International	3,831
SFlex Bond	2,777
SF Investment Realty	2,026
SFlex Money Market	6,920

Oceana County Road Commission
NOTES TO FINANCIAL STATEMENTS

December 31, 2003

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED

<u>Investment Type</u>	<u>Carrying Amount</u>
SF Term Growth	\$ 250
SF Mutual Shares	246
SF FR Small Cap	3,553
SF AMC International	<u>4,303</u>
Total Pension Trust Fund	1,645,246
Uncategorized Pooled	<u>554,608</u>
Total	<u>\$ 2,199,854</u>

NOTE C: CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2003 was as follows:

	<u>Balance Jan. 1, 2003</u>	<u>Additions and Reclassifications</u>	<u>Deletions</u>	<u>Balance Dec. 31, 2003</u>
Capital Assets Not Being Depreciated				
Land and land improvements	\$ 62,094	\$ -	\$ -	\$ 62,094
Capital Assets Being Depreciated/Depleted				
Buildings	1,710,115	-	-	1,710,115
Equipment -				
Road	4,977,077	154,095	21,337	5,109,835
Shop	99,777	-	-	99,777
Office	45,441	-	-	45,441
Engineer	3,744	-	-	3,744
Infrastructure - roads	-	1,392,578	-	1,392,578
Infrastructure - bridges	<u>-</u>	<u>644,276</u>	<u>-</u>	<u>644,276</u>
Subtotal	6,836,154	2,190,949	21,337	9,005,766
Less Accumulated Depreciation/Depletion				
Buildings	420,680	41,401	-	462,081
Equipment -				
Road	4,248,453	287,424	21,337	4,514,540
Shop	91,820	4,214	-	96,034
Office	44,855	586	-	45,441
Engineer	3,744	-	-	3,744
Infrastructure - roads	-	69,629	-	69,629
Infrastructure - bridges	<u>-</u>	<u>12,886</u>	<u>-</u>	<u>12,886</u>
Subtotal	<u>4,809,552</u>	<u>416,140</u>	<u>21,337</u>	<u>5,204,355</u>
Net Capital Assets Being Depreciated	<u>2,026,602</u>	<u>1,774,809</u>	<u>-0-</u>	<u>3,801,411</u>
Total Net Capital Assets	<u>\$ 2,088,696</u>	<u>\$ 1,774,809</u>	<u>\$ -0-</u>	<u>\$ 3,863,505</u>

Oceana County Road Commission
NOTES TO FINANCIAL STATEMENTS

December 31, 2003

NOTE C: CAPITAL ASSETS - CONTINUED

Depreciation expense was charged to the following activities:

	<u>Amount</u>
Net Equipment Expense	
Direct Equipment	\$ 287,424
Indirect Equipment	45,616
Net Administrative Expense	585
Infrastructure	<u>82,515</u>
	<u>\$ 416,140</u>

NOTE D: LONG-TERM DEBT

The following is a summary of changes in long-term debt (including current portions) of the Commission for the year ended December 31, 2003:

	<u>Balance</u> <u>Jan. 1, 2003</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>Dec. 31, 2003</u>	<u>Amounts</u> <u>due within</u> <u>one year</u>
General Long-Term Debt					
2000 MTF Revenue Bonds	\$ 640,000	\$ -	\$ 80,000	\$ 560,000	\$ 80,000
Capital leases	168,789	-	70,116	98,673	13,767
Vacation and sick leave	<u>417,034</u>	<u>1,110</u>	<u>17,609</u>	<u>400,535</u>	<u>249,550</u>
	<u>\$ 1,225,823</u>	<u>\$ 1,110</u>	<u>\$ 167,725</u>	<u>\$ 1,059,208</u>	<u>\$ 343,317</u>

Significant details regarding outstanding long-term debt (including current portions) are presented below.

Bonds payable at December 31, 2003, are as follows:

\$800,000 Michigan Transportation Fund Revenue Bonds, Series 2000 C, dated November 17, 2000, due in annual installments of \$80,000 through August 1, 2010, with interest ranging from 4.1 to 4.7 percent, payable semi-annually. \$ 560,000

Capital Leases

The Commission has entered into a lease purchase agreement which qualifies as capital lease for accounting purposes (title transfers to Commission) and therefore has been recorded at the present value of future minimum lease payments as of the date of inception. The following are additional details regarding the lease.

\$193,900 Oceana County Road Commission capital lease payable, dated June 1, 2000, due in annual installments ranging from \$19,687 to \$90,000 through June 1, 2005 with interest of 6.0 percent, payable annually. \$ 98,673

Oceana County Road Commission

NOTES TO FINANCIAL STATEMENTS

December 31, 2003

NOTE D: LONG-TERM DEBT - CONTINUED

Accumulated Vacation and Sick

In accordance with Commission personnel policies and/or contracts negotiated with various employee groups of the Commission, individual employees have vested rights upon termination of employment to receive payment for unused vacation and sick leave under formulas and conditions specified in their respective personnel policies and/or contracts.

Accumulated vacation and sick leave represents a liability to the Commission, which is presented in a current and long-term portion of the liability. For this reason, the total liability reported in the government-wide financial statements represents a current liability of \$86,765 and a long term liability of \$192,154 at December 31, 2003.

The annual requirements to pay general long-term debt principal and interest outstanding for the following bonds and installment contracts at December 31, 2003, is as follows:

Year Ending December 31,	Bond Payable			Capital Lease		
	Principal	Interest	Total	Principal	Interest	Total
2004	\$ 80,000	\$ 25,180	\$ 105,180	\$ 13,767	\$ 5,920	\$ 19,687
2005	80,000	21,740	101,740	84,906	5,094	90,000
2006	80,000	18,240	98,240	-	-	-
2007	80,000	14,720	94,720	-	-	-
2008	80,000	11,120	91,120	-	-	-
2009-2010	160,000	11,200	171,200	-	-	-
Total	<u>\$ 560,000</u>	<u>\$ 102,200</u>	<u>\$ 662,200</u>	<u>\$ 98,673</u>	<u>\$ 11,014</u>	<u>\$ 109,687</u>

NOTE E: FEDERAL FINANCIAL ASSISTANCE

It is required by the Michigan Department of Transportation (MDOT) that Road Commissions report total federal assistance for Highway Research, Planning, and Construction pertaining to their County. However, only the federal financial assistance applicable to force account expenditure is required to be audited for compliance under the Single Audit Act through Commission procurement. The reason for this requirement is that the Commission is required to have accounting and administrative control over the force account portion while the balance is administered by Michigan Department of Transportation.

During the year ended December 31, 2003, the Road Commission of Oceana County had no federal financial assistance (local force revenue) applicable to force account expenditures. As a result, an audit for compliance under the Single Audit Act is not required.

NOTE F: EMPLOYEE RETIREMENT SYSTEM

Plan Description

The Oceana County Road Commission has a master defined contribution pension plan covering substantially all full-time employees. This defined contribution plan is administered through the Safeco Life Insurance Company.

NOTES TO FINANCIAL STATEMENTS

December 31, 2003

NOTE F: EMPLOYEE RETIREMENT SYSTEM - CONTINUED

A defined contribution pension plan provides pension benefits in return for services rendered, an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amount of benefits the individual is to receive. Under a defined contribution pension plan, the benefits a participant will receive depend solely on the amount contributed to the participant's account, the returns earned on the investments of those contributions, and forfeitures of other participants' benefits that may be allocated to such participant's account. The plan requires the employer to contribute the equivalent of 6% of the participation employee's gross regular wages, with immediate vesting. Similarly, at least 5% of the employee's gross salary is to be contributed by the employee to the IRS Code Section 457 Plan. No pension provision changes occurred during the year that affected the required contributions to be made by the Road Commission or its employees.

Michigan Compiled Laws, Section 38.1121, authorizes the Road Commission to invest pension assets in a wide variety of investments including: stocks, bonds, certificates of deposit, real estate, annuity contracts, obligations of a specified nature and real or personal property. Specific limitations apply to the various investment types. The Road Commission's pension fund investments are in accordance with statutory authority. Investments are held by and purchased through Safeco Life Insurance Company.

NOTE G: CONTINGENT LIABILITIES

The Commission participates in a number of Federal and State assisted grant programs that are subject to compliance audits. The programs and the periodic program compliance audits of many of the programs have not yet been conducted, completed, or resolved. Accordingly, the Commission's compliance with applicable grant requirements will be established at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the Commission expects such amounts, if any, to be immaterial.

There is legal action pending against the Commission. Due to the inconclusive nature of this action, it is not possible for Commission's Counsel to determine the probable outcome or a reasonable estimate of the potential liability, if any.

NOTE H: RISK MANAGEMENT

The Road Commission participates in the Michigan County Road Commission Self-Insurance Pool for claims relating to general liability, trunkline, excess liability, auto liability, errors and omissions and physical damage. The Road Commission participates in the County Road Commission Self-Insurance Fund (CRCSIF) for workers' compensation insurance and has full statutory coverage for workers' disability compensation and employers' liability as granted by the State of Michigan under Chapter 6, Section 418.611 of the Workers' Disability Compensation Act. The Commission has no liability for additional assessments based on the claims filed against the fund nor do they have rights to dividends.

The Commission carries commercial insurance for the risk of loss due to directors' and officers' liability and tank storage.

Oceana County Road Commission

NOTES TO FINANCIAL STATEMENTS

December 31, 2003

NOTE I: EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Michigan Public Act 621 of 1978, Sections 18 and 19, as amended, provides that a local governmental unit not incur expenditures in excess of the amounts appropriated.

In the Budgetary Comparison Schedules presented as Required Supplementary Information, the Oceana County Road Commission budgeted expenditures in the General Operating Fund have been shown at the functional classification level. The approved budget of the Oceana County Road Commission has been adopted the activity level for the General Operating Fund.

	Amended Amounts <u>Appropriated</u>	Actual Amounts <u>Expended</u>	<u>Variance</u>
Primary Road			
Heavy maintenance	\$ 410,000	\$ 557,321	\$ 147,321
Structure maintenance	-	1,361	1,361
Local Road			
Maintenance	1,493,664	1,934,850	441,186
Structure maintenance	428,000	647,116	219,116
Equipment			
Direct	573,531	837,464	263,933
Indirect	386,634	398,775	12,141
Operating	150,000	206,833	56,833
Drains At Large			
Drain assessment	-	13,505	13,505
Debt Service			
Principal payments	146,000	150,116	4,116

NOTE J: FUND BALANCE RESERVES

Reserved fund balance is used to earmark a portion of fund balance to indicate that it is not appropriate for expenditure or has been legally segregated for a specific future use.

The following is the fund balance reserve as of December 31, 2003:

General Operating Fund	
Reserved for	
Primary Road	<u>\$ 1,195,748</u>

NOTE K: POST-EMPLOYMENT BENEFITS

In accordance with the union agreement and personnel policy, effective January 1, 1996, upon retirement each employee will be eligible for continuation of subscriber health insurance. Between the age of 62 and 65, the Road Commission will pay 100% of the subscriber benefit. This benefit will expire upon reaching the age of 65. After age 65, for health insurance to continue the employee is required to pay 100% of the premium amount applicable to their coverage on a monthly basis to the Road Commission. The Road Commission remits the full premium to the insurance carrier. The total cost was \$91,087 and the amount reimbursed by retirees was \$65,151 with a net cost to the Road Commission of \$25,936. During the year ended December 31, 2003, six retirees between the age of 62 and 65 were receiving benefits. The Road Commission's policy is to finance these benefits on a pay as you go basis.

Oceana County Road Commission
NOTES TO FINANCIAL STATEMENTS
December 31, 2003

NOTE K: POST-EMPLOYMENT BENEFITS - CONTINUED

Life Insurance

The Road Commission has purchased term life insurance for almost all full time employees, per the union agreement and personnel policy. Upon retirement, the insurance continues at a lower rate of coverage according to the following:

Retired while under age 70	\$ 3,000
Retired while age 70 to 74	2,500
Retired while age 75 to 79	1,500
Retired at age 80 and above	1,000

REQUIRED SUPPLEMENTARY INFORMATION

Oceana County Road Commission

BUDGETARY COMPARISON SCHEDULE - STATEMENT OF
REVENUES - BUDGET AND ACTUAL

GENERAL OPERATING FUND

Year Ended December 31, 2003

	Original Budget	Final Amended Budget	Actual	Variance Positive (Negative)
REVENUES				
Licenses and permits				
Permits	\$ 7,500	\$ 7,000	\$ 13,200	\$ 6,200
Intergovernmental				
Federal sources				
Critical Bridge	428,000	428,000	307,704	(120,296)
Economic development "D" funds	100,000	100,000	128,966	28,966
Surface transportation program	270,000	270,000	181,184	(88,816)
State sources				
Motor Vehicle Highway Funds				
Engineering	10,000	10,000	10,000	-0-
Primary road	1,768,900	1,700,000	1,987,364	287,364
Local road	1,586,800	1,525,000	1,702,434	177,434
Snow removal	121,000	121,000	122,119	1,119
Critical Bridge	78,036	-	57,694	57,694
Economic Development Funds				
Rural primary "D" funds	-	-	106,836	106,836
Forest road	45,000	50,000	48,397	(1,603)
Local sources				
Township contributions	(213,252)	545,000	605,442	60,442
Total intergovernmental	4,194,484	4,749,000	5,258,140	509,140
Charges for services				
State Trunkline maintenance				
Direct charges	700,000	670,000	917,731	247,731
Indirect charges	-	-	-	-0-
Salvage sales	2,500	10,000	-	(10,000)
Total charges for services	702,500	680,000	917,731	237,731
Interest	7,000	20,000	6,172	(13,828)
Other				
Other	1,250	-	72	72
Gain on equipment disposal	-	-	1,598	1,598
Total other	1,250	-0-	1,670	1,670
TOTAL REVENUES	<u>\$ 4,912,734</u>	<u>\$ 5,456,000</u>	<u>\$ 6,196,913</u>	<u>\$ 740,913</u>

Oceana County Road Commission

BUDGETARY COMPARISON SCHEDULE - STATEMENT OF
EXPENDITURES - BUDGET AND ACTUAL

GENERAL OPERATING FUND

Year Ended December 31, 2003

	Original Budget	Final Amended Budget	Actual	Variance Positive (Negative)
EXPENDITURES				
Current				
Primary Road				
Maintenance	\$ 796,347	\$ 888,034	\$ 885,382	\$ 2,652
Heavy maintenance	449,339	410,000	557,321	(147,321)
Structure maintenance	-	-	1,361	(1,361)
Total Primary Road	1,245,686	1,298,034	1,444,064	(146,030)
Local Road				
Maintenance	1,680,271	1,493,664	1,934,850	(441,186)
Heavy maintenance	689,536	864,943	835,257	29,686
Structure maintenance	580,359	428,000	647,116	(219,116)
Total Local Road	2,950,166	2,786,607	3,417,223	(630,616)
State Trunkline				
Maintenance	1,001,032	988,194	917,731	70,463
Equipment				
Direct	439,519	573,531	837,464	(263,933)
Indirect	338,237	386,634	398,775	(12,141)
Operating	-	150,000	206,833	(56,833)
Less: Equipment rental	(1,621,109)	(1,000,000)	(1,469,104)	469,104
Total Equipment	(843,353)	110,165	(26,032)	136,197
Administrative				
Administration	213,427	465,000	291,273	173,727
Less:				
Handling charges	-	-	(3,583)	3,583
Overhead state	-	-	(88,947)	88,947
Purchase discount	-	-	(544)	544
Other	-	-	(1,473)	1,473
Total Administrative	213,427	465,000	196,726	268,274
Drains at large				
Drain assessment	220,855	-	13,505	(13,505)
Capital Outlay				
Capital outlay	211,622	162,000	154,095	7,905
Less:				
Depreciation and depletion	(300,000)	(300,000)	(318,164)	18,164
Total Capital Outlay	(88,378)	(138,000)	(164,069)	26,069
Debt Service				
Principal payments	163,054	146,000	150,116	(4,116)
Interest payments	50,390	55,000	38,347	16,653
Total Debt Service	213,444	201,000	188,463	12,537
TOTAL EXPENDITURES	\$ 4,912,879	\$ 5,711,000	\$ 5,987,611	\$ (276,611)

OTHER SUPPLEMENTARY INFORMATION

Oceana County Road Commission

STATEMENT OF CHANGES IN FUND BALANCE

GENERAL OPERATING FUND

Year Ended December 31, 2003

TOTAL REVENUES	\$ 6,196,913
TOTAL EXPENDITURES	<u>5,987,611</u>
EXCESS OF REVENUE OVER EXPENDITURES	209,302
Fund balance, beginning of year	<u>793,067</u>
Fund balance, end of year	<u><u>\$ 1,002,369</u></u>

Oceana County Road Commission

GENERAL OPERATING FUND

ANALYSIS OF CHANGES IN FUND BALANCE

Year Ended December 31, 2003

	Primary Road Fund	Local Road Fund	County Road Commission	Total
TOTAL REVENUES	\$ 2,413,140	\$ 2,849,145	\$ 934,628	\$ 6,196,913
TOTAL EXPENDITURES	<u>1,469,172</u>	<u>3,585,236</u>	<u>933,203</u>	<u>5,987,611</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	943,968	(736,091)	1,425	209,302
OTHER FINANCING SOURCES (USES)				
Optional transfers in	-	596,209	-	596,209
Optional transfers out	<u>(596,209)</u>	<u>-</u>	<u>-</u>	<u>(596,209)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(596,209)</u>	<u>596,209</u>	<u>-0-</u>	<u>-0-</u>
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	347,759	(139,882)	1,425	209,302
Fund balance (deficit), beginning of year	<u>847,989</u>	<u>102,266</u>	<u>(157,188)</u>	<u>793,067</u>
Fund balance (deficit), end of year	<u><u>\$ 1,195,748</u></u>	<u><u>\$ (37,616)</u></u>	<u><u>\$ (155,763)</u></u>	<u><u>\$ 1,002,369</u></u>

Oceana County Road Commission

GENERAL OPERATING FUND

ANALYSIS OF REVENUES

Year Ended December 31, 2003

	Primary Road Fund	Local Road Fund	County Road Commission	Total
REVENUES				
Licenses and permits				
Permits	\$ -	\$ -	\$ 13,200	\$ 13,200
Intergovernmental				
Federal sources	310,150	307,704	-	617,854
State sources	2,098,917	1,935,927	-	4,034,844
Local sources	-	605,442	-	605,442
Total intergovernmental	2,409,067	2,849,073	-0-	5,258,140
Charges for services				
State Trunkline				
Direct charges	-	-	917,731	917,731
Interest	3,319	-	2,853	6,172
Other				
Other	-	72	-	72
Loss on sale of equipment	754	-	844	1,598
Total other	754	72	844	1,670
TOTAL REVENUES	\$ 2,413,140	\$ 2,849,145	\$ 934,628	\$ 6,196,913

Oceana County Road Commission

GENERAL OPERATING FUND

ANALYSIS OF EXPENDITURES

Year Ended December 31, 2003

	Primary Road Fund	Local Road Fund	County Road Commission	Total
EXPENDITURES				
Heavy Maintenance	\$ 557,321	\$ 835,257	\$ -	\$ 1,392,578
Structure Maintenance	1,361	647,116	-	648,477
Maintenance	885,382	1,934,850	-	2,820,232
State Trunkline	-	-	917,731	917,731
Equipment Expense - Net	(4,681)	(16,442)	(4,909)	(26,032)
Administrative Expense - Net	58,439	138,287	-	196,726
Drains at large	13,505	-	-	13,505
Capital Outlay - Net	(42,155)	46,168	(168,082)	(164,069)
Debt Service	-	-	188,463	188,463
TOTAL EXPENDITURES	<u>\$ 1,469,172</u>	<u>\$ 3,585,236</u>	<u>\$ 933,203</u>	<u>\$ 5,987,611</u>

Oceana County Road Commission

SCHEDULE OF CHANGES IN CAPITAL ASSETS

Year Ended December 31, 2003

	Balance Jan. 1, 2003	Additions and Reclassifications	Deletions	Balance Dec. 31, 2003
CAPITAL ASSETS NOT BEING DEPRECIATED				
Land and land improvements	\$ 62,094	\$ -	\$ -	\$ 62,094
CAPITAL ASSETS BEING DEPRECIATED/DEPLETED				
Buildings	1,710,115	-	-	1,710,115
Equipment				
Road	4,977,077	154,095	21,337	5,109,835
Shop	99,777	-	-	99,777
Office	45,441	-	-	45,441
Engineer	3,744	-	-	3,744
Infrastructure - Roads	-	1,392,578	-	1,392,578
Infrastructure - Bridges	-	644,276	-	644,276
Subtotal	6,836,154	2,190,949	21,337	9,005,766
LESS ACCUMULATED DEPRECIATION/DEPLETION				
Buildings	420,680	41,401	-	462,081
Equipment				
Road	4,248,453	287,424	21,337	4,514,540
Shop	91,820	4,214	-	96,034
Office	44,855	586	-	45,441
Engineer	3,744	-	-	3,744
Infrastructure - Roads	-	69,629	-	69,629
Infrastructure - Bridges	-	12,886	-	12,886
Subtotal	4,809,552	416,140	21,337	5,204,355
Net Capital Assets Being Depreciated	2,026,602	1,774,809	-0-	3,801,411
Total Net Capital Assets	\$ 2,088,696	\$ 1,774,809	\$ -0-	\$ 3,863,505

Principals

Dale J. Abraham, CPA
Michael T. Gaffney, CPA
Steven R. Kirinovic, CPA
Aaron M. Stevens, CPA
Eric J. Glashouwer, CPA

Karen A. Roka, CPA
James A. Huguelet, CPA
Alan D. Panter, CPA
William I. Tucker IV, CPA
Kurt M. Lemmen, CPA



ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

Member:
American Institute of
Certified
Public Accountants
and
Michigan Association of
Certified Public
Accountants

REPORT ON COMPLIANCE AND INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF COMPONENT UNIT FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of County Road Commissioners
Oceana County
Hart, Michigan

We have audited the component unit financial statements of the Oceana County Road Commission as of and for the year ended December 31, 2003, and have issued our report thereon dated May 5, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Oceana County Road Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Oceana County Road Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one of more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

108 N. Spring St. ▪ St. Johns, MI 48879-1574 ▪ (989) 224-6836 ▪ FAX: (989) 224-6837
745 Barclay Circle, Suite 335, PO Box 70067 ▪ Rochester Hills, MI 48307 ▪ (248) 844-2550 ▪ FAX: (248) 844-2551

This report is intended for the information and use of management and the Board of County Road Commissioners and is not intended to be used by anyone other than these specified parties.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

May 5, 2004

Principals

Dale J. Abraham, CPA
Michael T. Gaffney, CPA
Steven R. Kirinovic, CPA
Aaron M. Stevens, CPA
Eric J. Glashouwer, CPA

Karen A. Roka, CPA
James A. Huguelet, CPA
Alan D. Panter, CPA
William I. Tucker IV, CPA
Kurt M. Lemmen, CPA



ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

Member:
American Institute of
Certified
Public Accountants
and
Michigan Association of
Certified Public
Accountants

MANAGEMENT LETTER

To the Board of County Road Commissioners
of Oceana County
Hart, Michigan

Dear Ladies/Gentlemen:

As you know, we have recently completed our audit of the records of Oceana County Road Commission for the year ended December 31, 2003. In connection with the audit, we feel that certain changes in your accounting procedures would be helpful in improving management's control and the operational efficiency of the accounting functions. These suggestions are a result of our evaluation of the internal control structure and our discussions with management.

1. The Road Commission should review the status of individual fund balances (deficits) near year-end.

As noted in the general purpose financial statements, the County Road and the Local Road Fund portions of total fund balance ended the year in a deficit financial position. This issue was noted for the County Road portion of total fund balance and reported in our audit comments last year.

We suggest the Road Commission closely monitor Primary Road, Local Road, and County Road fund spending, review the status of individual funds near year-end, and make appropriate adjustments when possible to eliminate deficits. The Road Commission should take corrective action to increase revenues and/or decrease expenditures in order to strengthen the financial condition of the Road Commission.

2. Budgets should be monitored and amended prior to expenditure of funds when necessary.

As noted in the annual financial statements, some of the budgeted activities of the Road Commission exceeded the amounts appropriated. Also the 2003 budget was amended after year-end.

The Michigan Public Act 621 of 1978, as amended, provides that the Road Commission adopt formal budgets for applicable Special Revenue Funds and shall not incur expenditures in excess of the amounts appropriated.

We suggest the Road Commission monitor expenditures against the adopted budget on a periodic basis, preferable monthly. Appropriate budget amendments should be adopted before year-end. These issues were noted and reported in our audit comments last year.

These conditions were considered in determining the nature, timing, and extent of the audit tests to be applied in our audit of the component unit financial statements, and this report does not affect our report on the component unit financial statements, dated May 5, 2004.

This report is intended solely for the use of management and the Board of Commissioners of Oceana County Road Commission and is not intended to be used by anyone other than these specified parties.

We wish to express our appreciation for the courtesy and cooperation extended to us during our audit. We are available to discuss any or all of these suggestions with you, and to provide assistance in the implementation of improvements.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

May 5, 2004